

VZCZCXRO8867  
RR RUEHCI  
DE RUEHKA #1143/01 0650951  
ZNR UUUUU ZZH  
R 060951Z MAR 06  
FM AMEMBASSY DHAKA  
TO RUEHC/SECSTATE WASHDC 5806  
INFO RUEHLM/AMEMBASSY COLOMBO 7335  
RUEHIL/AMEMBASSY ISLAMABAD 1001  
RUEHKT/AMEMBASSY KATHMANDU 8419  
RUEHNE/AMEMBASSY NEW DELHI 8930  
RUEHLO/AMEMBASSY LONDON 1394  
RUEHCI/AMCONSUL CALCUTTA  
RUEHRC/USDA FAS WASHDC  
RUCPDOG/USDOC WASHDC 1585

UNCLAS SECTION 01 OF 02 DHAKA 001143

SIPDIS

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SENSITIVE

NEW DELHI FOR FAS

E.O. 12958: N/A

TAGS: [ENRG](#) [PGOV](#) [EAGR](#) [BG](#)

SUBJECT: BDG CONFRONTED BY FAILURE TO INVEST IN POWER SECTOR

Sensitive but unclassified.

¶1. (SBU) Summary: The chronic electricity shortage in Bangladesh has turned acute this winter. Steady economic growth and the corresponding growth in electricity demand have begun to overwhelm the country's aging generating capacity. "Load shedding" (controlled blackouts) occurs more regularly and for longer periods, affecting not only the rural areas, but also Dhaka, Chittagong and other major cities. The power shortage is also affecting water supplies and will cause reduced yields for the season's boro rice crop, much of which depends on electric pump driven irrigation during the winter dry season. With no obvious short term solutions at hand, this "energy crisis" could become a major election issue for the opposition Awami League. End summary.

¶2. (SBU) The annual winter shortage of electricity is again making local headlines. Increased demand for electricity for irrigation pumps for the winter boro rice crops, coupled with scheduled generator outages for maintenance during the cool, winter dry season, typically results in increased load shedding during this time of year. This year's energy deficit, however, has begun earlier and been more severe than in years past.

¶3. (SBU) Bangladesh has approximately 4000 MW of installed electricity generating capacity, excluding captive power generation dedicated to major industrial plants. Total demand, however is estimated at 5000 MW, leaving a 20% shortfall. Steady economic growth averaging 5.5% annually, coupled with even stronger growth in the industrial, manufacturing and commercial construction sectors, has resulted in an average 10% annual growth of electricity demand.

¶4. (SBU) Despite election promises to match supply to demand, the present BNP-led government has failed to bring new generating capacity on line. A planned coal fired 250-MW Chinese-built plant is over a year behind schedule, while work is yet to begin on 450-MW plant at Menaghat II. The government has stalled a similar 450-MW plant at Serajganj for years because of investors' ties to the Awami League. The 80-MW Chinese-built Tongi power plant, which the Prime Minister proudly commissioned in September 2005, failed just three days later and has not operated for any significant period since then. An estimated 40% (1600 MW) of existing capacity is nearly 25 years old. Poor maintenance and the

age of the plants contribute to frequent equipment failures, further reducing available supply.

15. (SBU) At least three additional private investor proposed projects for over 1000 MW of generating capacity have been tied up in negotiations for more than a year. Although part of the delay reflects legitimate questions about the projects, lack of government technical capacity, fragmentation of authority among government corporations, the energy ministry and the prime minister's office, inadequate government procurement regulations, and political infighting are the underlying structural barriers to investment. Government attempts to stimulate investment in the small power sector (plants generating 50-150 MW of power) became so mired in blatant corruption that the World Bank was forced to step in and stop the government from proceeding until a new procurement law could be adopted.

16. (SBU) Regular load shedding is impacting economic activities. Many businesses are now closing earlier because of load shedding during the peak evening business hours (six to eight pm), which is the period of peak energy demand in Bangladesh. Load shedding also shuts down equipment at manufacturing and industrial plants, often ruining production runs. Even when power is restored, firms face significant delays bringing heavy manufacturing equipment back on line and restarting production processes. Although some larger firms have gone off the grid with their own captive power plants, most others must rely on diesel fueled standby generators, the reason why Bangladesh is Caterpillar's largest overseas market for diesel generators.

17. (SBU) Load shedding has also had a major impact on the water supply in Dhaka and Chittagong. Water for these cities

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mainly comes from several hundred deep tube wells. Water is extracted using electric pumps. Only half the wells have standby diesel generators to supply power to the pumps during blackouts. Increased use of generators and rising fuel prices are straining the budgets of city water authorities. Moreover, erratic power makes it more difficult for the water authorities to maintain any pressure in the mains, which sometimes run dry. Wastewater infiltration into the poorly maintained water distribution system may lead to an increase in water-borne diseases.

18. (SBU) The power shortage will also affect the winter boro rice crop. An estimated 30-40% of the land under cultivation requires irrigation. Pumps are used to supply the water; however, load shedding during much of the day prevents farmers from using their pumps. Voltage spikes and brownouts also reduce significantly the useful life of the pumps.

19. (SBU) The problem is especially acute in the northwestern corner of Bangladesh, where 55% of the boro rice crop is grown. Half of this land requires irrigation. Yet this region has little local generating capacity because there are no major gas lines in the area to fuel the power plants. Power comes mainly from the northeastern region, where gas service for the power plants is readily available. Transmission lines between the two regions are insufficient to meet demand, one reason load shedding falls more heavily on the northwestern region.

110. (SBU) Farmers have also had to cope with fertilizer shortages and price rises. Poor distribution and informal cartel behavior by local dealers to drive up prices, rather than supply shortages, are the key factors behind the shortages. Faced with these problems, farmers have reduced the acreage under cultivation by up to 15%. Average yields however may fall by only 10%, as good weather in the east leads to higher crop yields, offsetting lower yields in the west.

¶11. (SBU) The Awami League has been slow to capitalize on the power crises. It has made the requisite statements chastising the government for failing to fulfill its election promises, has tried to humanize the issue by highlighting the plight of students forced to study for exams by candlelight, and has staged isolated protests on behalf of farmers. The Awami League has been far more focused, however, on pushing its election reform proposals.

¶12. (SBU) Comment: The severity of this year's power shortages could become a major issue in the upcoming elections. The Awami League's rural base is clearly frustrated by the continual load shedding. The shortages are also having a more noticeable impact on the nearly 20 million inhabitants of Dhaka and Chittagong. Moreover, this year's power shortages coincide with shortages of fertilizer and diesel fuel, as well as commodity price hikes, gradually increasing inflation and embarrassing problems at the national airline, BIMAN. End comment.  
CHAMMAS